

**TUI Supervisory Board approves action plan: no demerger of the Group /  
Resolution to adopt new flight and internet strategy / Entry into the high-  
volume cruise market / 250 million euro cost-cutting programme / Substantial  
reduction in central costs / First measures to reduce debt and capital costs**

Hanover, 15 December 2006. At yesterday's meeting, the Supervisory Board of TUI AG approved all measures of the Executive Board to achieve further growth, efficiency enhancements and cost reductions. The Supervisory Board supports the Executive Board's decision not to demerge the shipping division at the current market situation.

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The core of the action plan is a growth strategy for TUI's German flight business under the new brand TUIfly.com, the establishment of a new Europe-wide internet portal for flights, the expansion of the hotel business and entry into the high-volume premium cruise segment under the brand TUI Cruises by means of a joint venture with world market leader Carnival. At the same time, a new debt reduction programme totalling around one billion euros has been initiated. In parallel, the first steps have been taken to reduce the amount of capital tied up in flight operations. Frenzel said: "Our action plan clearly aims to significantly improve profitability in the tourism division. We will achieve this objective by means of profitable growth and cost reductions while simultaneously reducing our capital tie-up." On top of the action plan, TUI's CEO announced a cost-cutting programme worth 250 million euros by 2008 for the tourism division and a significant reduction in corporate centre costs by around one third.

**Detailed overview of the measures:**

**Flight strategy / New brand TUIfly.com**

TUI AG has opted for a stand-alone solution for the German market. In future, the airline will operate under the new brand TUIfly.com. "We will pool Hapagfly and Hapag-Lloyd Express (HLX) into the new brand TUIfly.com in order to secure access to the low-cost, internet and modular tour growth markets", explained Frenzel. Currently, growth in the modular segment is largely generated through the airlines' websites, through which some of the hotel and rental car modules are already sold today. Following a capacity increase of five aircraft already announced, the fleet will

operate a total of 56 aircraft in 2007 and expand its seat capacity by around 27 per cent. The airline strategy will be implemented in three stages. With the merger of Hapagfly and HLX and the integration of flight schedules, a crucial basis for future growth has already been created this year. In mid-January 2007, a uniform internet portal will be released under the new brand. As of 2007, the remaining five TUI airlines in Europe will then gradually be marketed under the website TUIfly.com. In 2008, all existing airlines will gradually be rebranded to the new airline brand TUIfly.com. "Our consistent branding will facilitate considerable efficiency increases in the use of marketing resources and will boost our sales opportunities", said Frenzel. Carrying passengers from the holiday destinations to TUI's source markets, in particular, is a business that can still be expanded. With TUIfly.com, a European brand, it will be easier to address customers. At the same time, the new brand TUIfly.com will be an essential element of TUI's new internet strategy.

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Overall, the new airline strategy will create an earnings effect of around 60 million euros by 2008.

In order to secure its future airline business, TUI has placed a fleet renewal order with Boeing for 41 aircraft valued at US\$ 3.64 billion. The aircraft will be delivered as of 2010 and will replace aircraft required in the period 2010 to 2013 without increasing overall capacity. (→ "Reduction in debt and capital employed", page 5).

The new aircraft will replace leased aircraft currently operated in all source markets. Most of the aircraft will be financed through off-balance financing schemes.

The above commitment is in addition to an existing order backlog with Boeing of 24 narrow-body aircraft, bringing TUI's total order backlog with Boeing to 65 aircraft.

### **Internet strategy**

TUI is planning to significantly increase its internet-based sales of tours in the years to come. The Group already generates around 18 per cent of its overall turnover on the web. "We are pursuing a clear objective: on an average we are planning to grow 50 per cent in the internet segment in the respective source markets within the next three years", said TUI CEO Michael Frenzel. Web-induced sales would then account

for more than 25 per cent of total turnover (currently 18 per cent / approx. 2.2 billion euros). However, TUI's CEO pointed out that travel agencies will remain the key distribution channel in Germany. The new airline brand TUIfly.com will be expanded to form an international travel platform for all of Europe. "We are developing a new, yellow TUI travel world with primarily price-aggressive modular offerings, complementing our classical blue travel world", explained Frenzel.

The new internet strategy is expected to create an earnings potential of around 70 million euros by 2008 for the Group.

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### **TUI Cruises**

With the entry into the high-volume premium cruise segment in the German cruise market, TUI will secure an additional growth perspective. TUI is already represented in the luxury segment with the Hapag-Lloyd Kreuzfahrten brand and operates a small fleet under the Thomson Cruises brand in the budget segment in the UK. "We are now planning to close a gap in the high-volume premium segment with TUI Cruises", said Frenzel. This segment accounts for around 30 per cent of the overall cruise market in Germany and, moreover, shows the strongest growth.

In order to enter this market, TUI is planning to engage in a partnership with Carnival Corporation & PLC, the world market leader in cruises. TUI will gradually acquire up to 25 per cent of a joint venture to be founded. Carnival will bring its German AIDA operations into the company. In the framework of the partnership, a separate product line TUI Cruises will then be established. The first TUI ship will be delivered in 2010 and will have a capacity of 3,000 beds. TUI CEO Frenzel said: "This way, we will benefit from growth in this market at reasonable risk and employment of capital." A corresponding letter of intent has been signed.

### **Expansion of hotel business**

A highly competitive hotel sector is of key strategic importance to TUI. "Both for package tours and modular tours, hotels are the crucial factor determining customers' satisfaction with their holiday trip and thus are the key to success in terms of customer loyalty", explained TUI's CEO. For this reason, TUI engaged in selective investments in cooperation with its hotel partners in the past and will continue to do

so in future. The investments made in the last few years are expected to create an earnings effect of around 60 million euros. By 2008, 26 new hotels with a total capacity of around 20,000 beds will be added to the portfolio.

### **Cost-cutting programme in tourism**

Against the background of a constantly changing market and persistently strong competitive pressure, TUI has been forced to further reduce costs in the tourism division. Alongside the classical package tour market, a new modular travel market is developing with different distribution, cost and margin structures. Future growth will primarily be created in the modular travel segment. "However, gross margins are considerably lower in this segment compared with package tours. Without further growth and an adjustment of our cost structures, we would risk our market position", said Frenzel. According to Frenzel, the TUI Group currently generates better margins and leverages economies of scale in competing with classical online travel portals. "We therefore have to get fit for the future now, from a position of strength. Improvements in our cost structure in combination with profitable growth in new and existing business segments are the only way to ensure our future strength", said Frenzel.

Overall, TUI is planning to implement cost savings of around 250 million euros by 2008, including savings of 150 million euros in cost of materials and around 100 million euros in personnel costs. This also includes cutting around 3,600 jobs in the tourism division by 2008. At 2,600 jobs, the UK will be most strongly affected by the job cuts since market changes are far more dramatic in the UK compared with Central Europe. In Germany, around 400 jobs will be affected. The job reductions will largely be effected in a socially compatible manner. Discussions with employee representatives will soon be initiated. The anticipated restructuring costs of 140 million euros will be carried in the balance sheet for the current financial year 2006.

TUI CEO Frenzel pointed out that alongside the job cuts more than 3,300 new jobs will be created in certain segments by 2008, including several hundred new jobs in Germany.

### **Reduction in central costs**

On top of cost cutting measures in tourism, the cost of materials and personnel costs for TUI AG's corporate centre function will also be reduced. The aim is to cut corporate centre costs from currently 112 million euros to 70 to 80 million euros by 2008, a reduction of around one third.

### **Merger of TUI AG and TUI Deutschland GmbH**

Further efficiency enhancements will result from the integration of TUI AG and TUI Deutschland GmbH in a single joint organisation. In future, the classical holding functions, the central functions of the tourism division and the operative business in source market Germany will be pooled in the new TUI AG. The merger is not planned to result in any job losses.

### **Reduction in debt and capital employed**

In parallel to the action plan for efficiency enhancements, TUI has launched a new programme for a further reduction in net debt and a related reduction in capital tied up in the Group. For shipping, it was decided to sell a harbour terminal in Montréal, Canada, and to sell several smaller ships owned by CP Ships. Some of them have already been chartered out to third parties. In addition, the divestment of real estate not required for operating purposes has been planned. Overall, this will result in a cash potential of around one billion euros. For 2008, TUI thus expects net debt to stand at around 2.5 billion euros. Additional potential to reduce net debt will result from operating cash flow.

Moreover, the TUI AG Supervisory Board has authorised the Executive Board to prepare the annual financial statements for 2006 on the assumption that a dividend will not be paid. Servicing of the Group's hybrid bond will not be affected. For the 2007 financial year dividends are assumed to be paid again.

A reduction in capital employed has also been planned for the tourism division. TUI is currently analysing the establishment of a leasing company, in which TUI would hold a minority shareholding. Should the company be established, aircraft currently owned by the Group could be transferred to the leasing company. At the same time, the

company to be established would be able to acquire new aircraft. The relevant details still have to be worked out.

### **Specification of the medium-term profit target**

Despite the currently difficult market situation in shipping and tourism, TUI is aiming to achieve a substantial improvement in earnings in the medium term. The divisions' medium-term performance targets have been defined more specifically. Due to the persistent pressure on margins in tourism, the Executive Board considers earnings of 450 to 550 million euros to be realistic for 2008. As Frenzel pointed out: "The reduction in capital tie-up, however, will also significantly increase our profitability." Earnings in the shipping division will be boosted significantly by the non-recurrence of the integration costs and the synergies taking effect. In combination with considerable volume growth, TUI is aiming to generate an earnings level of 400 to 500 million euros. "Depending on the development of freight rates, the earnings potential may considerably exceed 600 million euros in subsequent years if worldwide economic growth continues", said Frenzel.

In the tourism division, the Executive Board considers it probable that a restatement of goodwill may be required due to the changes in earnings expectations.

If we comment on forecasts or expectations in this announcement or if our statements relate to the future, these statements may be associated with known and unknown risks and uncertainties. Actual outcomes and developments may, therefore, deviate significantly from the expressed expectations and assumptions. In addition, the performance of financial markets and exchange rates as well as national and international law amendments, particularly with regard to tax regulations, may have an influence. Except as provided by law, the company assumes no obligation to update future statements.

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